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Today

The Bank of Vermont confirmed that $400,000 was illicitly transferred out of the bank in a nationwide scheme using the wire transfer networks. 2

House members at the Democratic convention expressed skepticism about the prospects for a vote on major banking legislation next week. 2

Arkansas has entered the regional interstate banking arena with passage of legislation that also puts statewide branching on hold. 2

2d-QUARTER EARNINGS

BankAmerica Corp. earned $162 million, or 85 cents per share. 3

Shawmut National Corp. reported earnings of $58.9 million, a 24% jump, while Marine Midland Banks posted earnings of $36.5 million compared with a $294.6 loss in the comparable quarter last year. 3

Meritor Financial Group lost $79.4 million, or $2.27 a share. 3

Net income rose at Carteret Bancorp, Morristown, N.J., for the quarter that ended in June. 7

Earnings declined at Great American First Savings Bank and CalFed, while increasing at H.F. Ahmanson and the Imperial Corporation of America, all in California. 10

COMMENT

Regulatory vigilance will do more to restore health to the nation's thrift industry than blaming the economy, says House Banking Committee Chairman Fernand J. St Germain. 4

THRIFTS & MORTGAGES

Home mortgage originations plummeted 37% in the first three months of this year. 2

Though asset size is often dismissed as a measure of accomplishment, the growth at seven-year-old County Savings suits bank chairman William J. Levy just fine. 6

HUD received 909 letters on the rewrite of the 14-year-old Real Estate Settlement and Procedures Act. 6

Gibraltar Savings is offering a package of features for its adjustable-rate mortgages that includes charging lower interest rates to the thrift's most creditworthy borrowers. 7

Marking short-term investments to market should not hurt thrift institutions that actively manage portfolios, writes Joseph C. Hu. 4

Worth Repeating

I tried to talk about it, but the bankers didn't seem disposed to that. They want to fight, and so I am forced to oblige them.

Rep. John D. Dingell, D-Mich., chairman of the Energy and Commerce Committee, when asked if he had tried to compromise with the banking industry on new powers. [Page 2]

Japanese Run 6 of Top 10 ATM Systems

Foreign Banks Own Biggest Networks

World ATM rankings at yearend 1987

Financial institution	Country	Cards (mil.)	Machines
1. Post Office Savings System	Japan	9.7	6,036
2. Dai-Ichi Kangyo Bank	Japan	4.9	4,976
3. Mitsubishi Bank	Japan	7.8	4,747
4. Sumitomo Bank	Japan	6.4	4,008
5. Credit Agricole	France	6.1	3,467
6. National Westminster Bank	England	4.6	2,389
7. Trust Bank System	Japan	1.1	2,379
8. Taiyo Kobe Bank	Japan	2.7	2,051
9. Lloyds Bank	England	4.4	1,900
10. TSB Group	England	3.3	1,787
Leading U.S. Banks			
14. Bank of America	U.S.	3.9	1,358
15. First Interstate Bancorp	U.S.	4.3	1,355
19. Citicorp	U.S.	1.9	1,281
20. Wells Fargo Bank	U.S.	2.1	1,204

Source: *The Nilson Report*

By JEFFREY KUTLER

NEW YORK — Japanese institutions not only dominate the ranks of the world's largest banks, as the *American Banker* reported earlier this week. They also own more automated teller machines than do banks in any other country.

Six of the 10 largest proprietary, or single-bank, ATM networks in the world, including the top four, are Japanese. Other positions in the top 10 are held by French and British banks.

Bank of America, which owns more ATMs than any other U.S. bank, ranks only 14th. First Interstate Bancorp is 15th, Citicorp 19th, and Wells Fargo Bank 20th.

The standings appear in a directory, just published by *The Nilson Report*, listing more than 1,000 ATM systems in 81 countries. H. Spencer Nilson, publisher of the Los Angeles-based newsletter, made an advance copy of the 220-page, $650 directory available to the *American Banker*.

Mr. Nilson and his staff counted 80,933 ATMs in Japan at yearend 1987, 17,068 more than the 63,865 in the U.S., which is the second largest country in terms of ATM population.

Third on the list is England, with 12,520, or only one-fifth of the U.S. total, followed by France at 11,895. No other country has as many as 8,000 ATMs.

Mr. Nilson's U.S. estimate of less than 64,000 ATMs is well below the 68,000 to 70,000 that other researchers — notably Linda Fenner Zimmer of Marlborough, Conn., and the Chicago-based newsletter, *Bank Network News* — have tallied. Mr. Nilson claims he is more careful than the others to reconcile manufacturers' orders with actual installations by banks.

Mrs. Zimmer has said that the average ATM in the U.S. handles 5,000 to 5,500 transactions per month, and that this figure fell in recent years as ATM

Japan: Page 11 ➡

Futures Group Trying to Woo Bankers

By JED HOROWITZ

NEW YORK — After last October's crash, some futures and options traders grumbled that banks had abandoned them when they needed quick cash to pay their margins. Now, a group organized by futures exchange clearing houses is taking a more formal approach to woo lenders back into the futures fold.

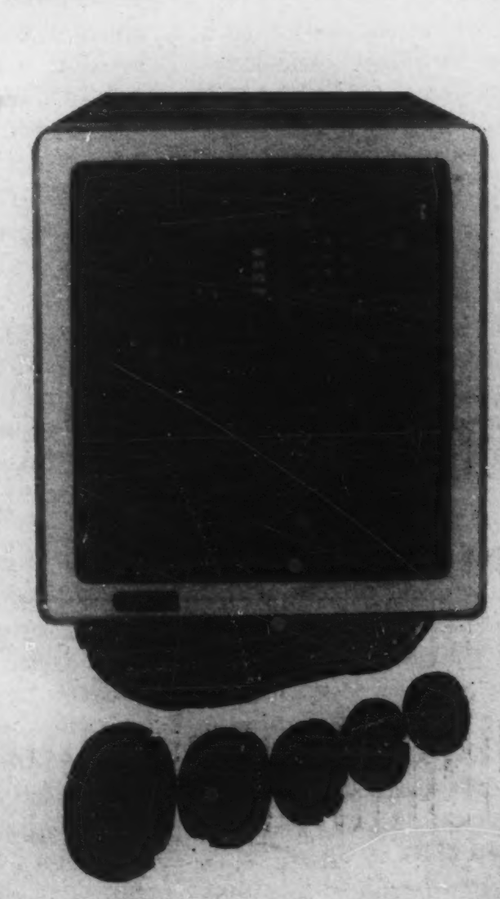
The Clearing Organization/Clearing Bank Roundtable is planning a group of seminars to educate lenders about the clearing and settlement system. The group was formed by the Chicago Mercantile Exchange and the Board of Trade Clearing Corp. after the market crash, to improve communications among exchanges, banks, and regulators.

Various government-sponsored reports criticized exchange clearing houses and banks for failure to coordinate their clearing and settlement procedures during the October tumult.

The purpose of the seminars, which are still in the planning stage, will be to educate banks on "how futures and options exchanges work, what sort of financing arrangements exist, and how they might be expanded," said John Davidson, senior vice president and head of the Chicago Mercantile Exchange's clearing house. The sessions are expected to be held in early fall.

In particular, clearing house executives are hoping that banks will be more eager to accept options on securi-

Futures: Page 8 ➡



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July 22, 1988, American Banker

Marking to Market for Active Mortgage Portfolios

By JOSEPH C. HU

IN EARLY June, the Federal Home Loan Bank Board issued a proposed regulation for public comment that would require all FSLIC-insured thrifts to account for securities held for investment, sale, or trading using generally accepted accounting principles.

In an effort to encourage thrifts to develop strategic policies for their securities investments, the Bank Board proposed to distinguish and therefore account for thrifts' investment activities by their intent and ability to hold the securities. Those securities held for long-term investment would be carried on an institution's books at amortized cost; those for trading, at market value; and those for sale, at the lower of amortized cost or market value.

In the past, a clear distinction has rarely been made among investment, trading, and sale accounts. The issue of mark-to-market (at least for assets already on the books) has long been emotionally debated between the regulator and the thrift industry.

Looking forward, however, sound management of a mortgage portfolio — either for long-term investment or short-term gains — requires frequent trading of parts of the portfolio whenever market conditions change, in order to achieve the originally stated objectives. Furthermore, recently created derivative mortgage securities have provided managers with opportunities for effectively hedging the value of their mortgage portfolios.

As a result, the market value of hedged portfolios will have limited fluctuations when interest rates vary. Marking these portfolios to market, therefore, should not have significant balance-sheet consequences.

Unlike other fixed-income debt, mortgages are prepayable at par at any time. In a declining interest rate environment, this feature results in rising prepayments that not only limit the portfolio's appreciation but also reduce its originally stated cash-flow yield.

Conversely, as market interest rates rise, prepayments slow, prolonging the portfolio's expected maturity and rendering heavier principal losses than other nonprepayable securities. Because of this feature, a mortgage portfolio requires active management to achieve desirable yields.

Active management includes frequently trading parts of the portfolio as relative values among various coupons change according to market interest rates and housing fundamentals. Managing a mortgage portfolio without trading can only be detrimental to its potential performance and involves a level of risk inconsistent with the stated goals of the proposed regulation.

Constant monitoring and rebalancing of the portfolio are necessary to ensure that the arbitrage continues to perform as originally planned.

— Joseph C. Hu
Executive Vice President
Shearson Lehman Hutton Inc.

Trading Strategies

• Enhancing returns through dollar rolls: Unique to the mortgage securities market is its forward-delivery mechanism. Mortgage origination is a time-consuming process. This feature provides interest rate protection for originators.

Taking advantage of forward delivery, an investor can roll securities out of his portfolio for current-month delivery and simultaneously buy them back at lower price for forward delivery. This price differential, after taking prepayments into consideration, can be viewed as a cheap method of obtaining short-term financing. Managers can enhance the annual return of a mortgage securities portfolio by at least 50 to 75 basis points by constantly doing dollar rolls.

• Increasing yield with arbitrage transactions: Another popular means of enhancing portfolio yield is the arbitrage transaction in which thrifts fund the purchase of mortgage securities with short-term repurchase agreements. To reduce interest rate risks in these transactions, a thrift enters into an interest rate swap agreement to pay fixed rates (a series of Treasury yields plus a spread) in return for a rate pegged to an index (usually Libor).

Even though this arbitrage is a long-term investment, the portfolio needs constant adjustment of both assets and liabilities. Varying prepayments through time inevitably change the expected duration or average life of the remaining mortgage assets. Constant monitoring and rebalancing of the portfolio are necessary to ensure that the arbitrage continues to perform as originally planned.

• Hedging with derivative mortgage securities: Over the past year, large amounts of derivative securities have been created, including stripped interest-only securities, fixed-rate collateralized mortgage obligation residuals, CMO superfloaters, and excess servicing. All these securities are fundamentally bearish and are ideal vehicles for hedging against rising interest rates.

Long-Term Assets

Unlike options and futures, these are long-term assets that provide positive, albeit minimal yield while performing the hedging function. Because of this feature, they have been purchased increasingly by thrifts to hedge their overall mortgage portfolios or to use in arbitrage transactions.

At the same time, derivative securities tend to stabilize the market value of the portfolio because their value always moves in the opposite direction from the hedged assets. Strategic use of derivative securities and active trading are important to the performance of mortgage portfolios.

More important, they foster the discipline of mark-to-market without significant balance-sheet consequences. For thrifts that are willing to manage their portfolios actively, mark-to-market should help distinguish their competitiveness in attracting equity capital and the performance of their stock. ■

Dr. Hu is executive vice president and director of mortgage research at Shearson Lehman Hutton Inc.

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REQUIRED READING

What Signals Is Congress Sending to Regulators?

Following are excerpts from opening remarks delivered July 7 by House Banking Committee Chairman Fernand J. St Germain, D-R.I., at oversight hearings on the condition of the thrift industry.

□

NO ADMINISTRATION headed for retirement likes to talk about unsolved problems. That's the next guy's headache after the optimistic scenarios fade like the first rose of summer.

Perhaps this syndrome explains some of the growing tendencies of the Home Loan Bank Board to come up with upbeat explanations and the most comforting projections — billions below the cautious conservative analysis of the General Accounting Office and less than half what many respected private analysts believe it will cost to straighten out the mess over the next five years.

This committee needs to try and make sense out of the multibillion dollar variations in the numbers, but it is also imperative that we make certain that the supervision of savings and loans is in place and that new situations — future candidates for bailouts — aren't being created.

Too often, problems in the savings and loan industry are explained away with a few well-chosen cliches about oil prices and sagging economies. No question that economic conditions are a substantial factor, but it is naive to think this is the whole story. Some of the problems are just plain old-fashioned mismanagement, insider dealing, fraud, and high-flying excesses — exacerbated by lax supervision and hesitant enforcement.

lion in mid-1983 to $792 million at yearend 1984.

These are not happenings in the distant past. They began and grew in recent years — in the 1980s. Where were the regulators? What did they know? What did they do about it, if they knew? How many of these situa-

Too often, problems in the savings and loan industry are explained away with a few cliches about oil prices and sagging economies . . . but it is naive to think this is the whole story.

— Fernand J. St Germain
Chairman
House Banking Committee

No one can look at the looting of Vernon Savings and Loan in Texas and conclude that economic conditions created that mess. Oil at $30 a barrel wouldn't save that kind of operation.

In California, the regulators let a mailbox operation get started and flourish — American Diversified — with no retail outlets. Just a mailbox — fully insured by the FSLIC — that received deposits from around the country. This outfit grew an unbelievable 7,000% in 18 months — from $11 million in mid-1983 to $792 million at yearend 1984.

These are not happenings in the distant past. They began and grew in recent years — in the 1980s. Where were the regulators? What did they know? What did they do about it, if they knew? How many of these situations are out there now?

Are the same examiners and supervisors who missed Vernon's shenanigans still in place? More important, is the same regulatory mind-set in place? Some recent incidents raise serious questions about just what kind of signal is being sent to the regulatory troops.

With the Texas cleanup still underway, suddenly this spring Joe Selby was dropped as director of regulatory affairs for the Dallas Home Loan Bank.

Required Reading: Page 9 ➡

The Top 10 ATM Countries

At yearend 1987

	ATM Cards (mil.)	ATM Networks	No. of machines	Increase in ATMs since '85
Japan	135.0	13	80,933	27%
United States	137.7	609	63,865	8
England	30.1	11	12,520	43
France	23.0	5	11,895	26
Spain	15.0	4	7,873	63
Canada	17.5	20	6,175	69
Italy	6.1	1	5,658	166
Germany	23.4	1	5,396	116
South Africa	5.5	16	4,074	81
Australia	15.5	9	3,906	84
Worldwide (81 countries)	473.6	1,062	226,361	32

Source: *The Nilson Report*

10 Largest Shared ATM Networks

World ranking at yearend 1987

Name	Country or home state	Cards (mil.)	Machines
Carte Bleue	**France**	13.9	7,124
NYCE	**New York**	10.8	5,780
German Pool	**West Germany**	23.0	5,390
Interac	**Canada**	16.2	5,225
Star System	**California**	11.9	5,122
Pulse	**Texas**	7.2	4,500
Mac	**Pennsylvania**	10.0	4,020
Nationet	**U.S.[1]**	20.0	4,000
Bancomat	**Italy**	4.1	3,796
Most	**Virginia**	5.7	2,875

[1]Nationet is a joint venture of several regional networks including Tyme (Wisconsin), Shazam (Iowa), Metro-teller (New York), Exchange (Washington), and Honor (Florida).

Source: *The Nilson Report*

Japan, with Biggest Banks, Is Country with Most ATMs

→ **Continued from Page 1**

systems expanded faster than consumer demand. Mr. Nilson found the average ATM to be doing only 4,225 transactions per month.

He projected that ATMs in the U.S. will grow to 91,000 by 1995, 42% above his 1987 figure, while installations worldwide, including the United States, will increase 57% to 356,000.

U.S. banks excel in the sheer number of networks — 609, or 57% of the 1,062 proprietary and shared systems in the global Nilson directory. This is a function of the size of the country and of the relatively large number of banks in the United States.

This country lacks the nationwide branching tradition — and concentration of banking assets in a handful of large institutions — common to most other industrialized countries. The largest bank-owned ATM systems in such countries as Japan, England, France, and Canada have been integrated by those nations' largest financial institutions with extensive, full-service branch networks.

The correlation of market size with ATM-network size also shows up in the United States. Four of the nation's six biggest ATM owners are based in California, the most populous state and one that allows unlimited branching. These institutions are Bank of America, First Interstate Bancorp, and Wells Fargo Bank — all in the top 20 — and Security Pacific National Bank at No. 37.

Besides the California companies and New York-based Citicorp, the only other U.S. institutions among the world's top 40 ATM owners are Bay Banks Inc., Boston, in 33d place, with 792 machines, and First Texas Savings Association, Dallas, in 35th place with 750.

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Growth Fastest Overseas

The United States has abdicated its former status as the leading ATM market in the world — to Japan in total number of machines, and to several European and Pacific Rim countries in terms of market growth.

> Diebold's worldwide market share, including machines sold under other names, equals 16.1%.

ATMs in the United States grew only 8% in the two years since *The Nilson Report*'s previous survey. In the 18 other countries with at least 1,000 ATMs, the numbers of machines increased by double-digit or triple-digit percentages except in 15th-ranked Scotland, which grew 8% to 1,740, and 17th-ranked Hong Kong, which fell 2% to 1,211.

Italy, seventh on the country list, with 5,658 ATMs, and Germany, eighth, with 5,396, each doubled their totals in two years.

Japan and the United States together account for 64% of the world ATM market, down from 72% in 1985. This means that other countries are catching up: ATM growth rates in Spain (63%), Canada (69%), South Africa (81%), Australia (84%), and Switzerland (53%), for example, are higher than in both the United States and Japan.

Japan, at the top of the 1985 listing with 63,867, compared with 59,075 in the United States, managed to grow in ATM installations by 27% since the last Nilson publication, or more than three times the U.S. rate.

Strong as they have become in electronic banking, Japanese institutions do not dominate the ATM rankings as much as they do the *American Banker*'s list of the 500 largest banks by deposits. As of yearend 1987, all of the top 10 banks and 17 of the top 25 are Japanese.

None of the top 25 world banks are based in the U.S., but four of the top ATM-owning banks are. Nine of the Nilson top 25 ATM owners are Japanese banks, five are British, and three are French.

The Japanese have done the most to integrate ATMs into their basic operations. Most Japanese ATMs are inside bank offices, where they provide an alternative to waiting in line for human tellers, and are accessible for less than the 24 hours a day that American ATM users have come to expect.

At the top of the ATM-owning list is the Japanese post office. In administering a savings program to which almost the entire population subscribes, the post office has installed 6,036 ATMs.

Three other Japanese banks, all among the five largest in the world, each have between 4,000 and 5,000 ATMs: Dai-Ichi Kangyo Bank Ltd., Tokyo; Mitsubishi Bank Ltd., Tokyo; and the Sumitomo Bank Ltd., Osaka.

Credit Agricole, the French cooperative bank, has 3,467 ATMs to rank fifth in the world, and National Westminster Bank, London, ranks sixth with 2,389. Bank of America, in 14th place, has 1,358 machines, or 1,031 fewer than National Westminster.

NYCE Is No. 2 Shared Network

The American ATM industry rises closer to the top in the ranking of shared networks. The New York Cash Exchange, known as NYCE, with 5,780 ATMs at yearend, is second only to the 7,124-machine Carte Bleue system in France and ahead of a 5,390-machine system that ties most of the German financial community together.

NYCE is one of 16 U.S. shared networks among the world's top 25. Among the others are the California-based Star System, Texas-based Pulse, and Pennsylvania-based Mac. Only 4 of the top 10 are not U.S. networks: Carte Bleue in France (ranked No. 1), the German pool (3), Interac in Canada (4), and Bancomat in Italy (9).

Of the 34 shared networks consisting of at least 1,000 machines, 19 are American, including No. 34, the Louisiana-based Near network, at 1,092.

U.S. banks formed so many regional networks because interstate banking was not legal until recently. By the time some states began to dismantle their branch-banking barriers in the 1980s, shared ATM networks had become a principal means for banks to expand their service areas.

Japan, which has 27% more ATMs than the U.S., has only 13 networks, or one for every 47 in the U.S.

Austria, Denmark, Germany, Italy, Korea, and Thailand, each have only one electronic banking network listed in the Nilson directory.

Diebold Tops in Market Share

In the supplier portion of his survey, Mr. Nilson found Diebold Inc., Canton, Ohio, to have manufactured more ATMs than any of its competitors. Diebold held onto that lead since the previous survey despite claims by NCR Corp., International Business Machines Corp., Fujitsu Ltd., and others that they have been replacing Diebold machines at an accelerating pace.

Diebold's worldwide market share, including machines that it manufactures for sale under other companies' names, equals 16.1% of the 226,361 ATMs.

NCR is second at 15.2%, followed by Fujitsu at 10.9% and IBM at 10.4%. All others, including the Japanese vendors Omron and Toshiba and the French companies Groupe Bull and Dassault, are in single digits.

Counting machines that Toshiba makes for NCR to sell in the Japanese market, NCR's installed base rises to 43,619 ATMs or 19.3% of the world market.

Diebold continues to draw its greatest strength from the home front. Of the 63,865 ATMs in the U.S., Diebold's share is 46.1%, up from 43.7% in 1985, according to *The Nilson Report*. NCR is second at 19.9%, IBM is third at 18.7%, and Docutel Corp. — no longer active in the market — is fourth at 9.8%.

In all of North America — the U.S., Canada, Mexico, and the Caribbean — Diebold's market share fell 1.4 points in two years to 41.9%, the survey said. IBM has sold 22.3% of the 71,062 machines in those markets. NCR is third in North America at 19.7%.

> Japan and the United States account for 64% of the world ATM market, down from 72% in 1985.

The Japanese vendors Fujitsu, Omron, and Hitachi dominate the 86,699-machine Asian market with regional shares of 25.4%, 19.6%, and 14.5%, respectively. NCR is the biggest in Europe at 26.9% of 55,425 machines, followed by 23.4% for IBM, 11.1% for the German manufacturer Nixdorf, and 9.3% for Olivetti of Italy.

IBM is tops in Australia, New Zealand, and the South Pacific, with 57.2% of the 4,616 machines installed there; in Africa, with 32.8% of 4,183 machines; and in Central and South America, with 33.3% of 3,258 machines. ■

Pension Management Co. Sets Compliance Seminar

NEW YORK — Pension Management Co., King of Prussia, Pa., has scheduled its 12th annual national compliance seminar for managers of Keogh plans, individual retirement accounts, and similar retirement plans.

The seminar will be held Oct. 3-7 at the Omni International Hotel, St. Louis.

Pension Management is a research, consulting, and publishing concern that specializes in helping financial institutions deal with the marketing and administration of pension plans. It claims a client base of 1,300 institutions around the country.

For more information, contact the company at 215-251-0360. ■